BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

ANNUAL COMPLIANCE REPORT, 2011	DOCKET NO. ACR2011

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
QUESTION 2 OF CHAIRMAN'S INFORMATION REQUEST NO. 1
(March 2, 2012)

The United States Postal Service hereby provides its response to the above-

listed question of Chairman's Information Request No. 1, issued on January 19, 2012.

The question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

Nabeel R. Cheema

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1137
(202) 268-7178; Fax -6187
March 2, 2012

Question 2

Please refer to the "Automation Incoming Secondaries" percentages in cells E15-E18 of tab "MISC" of USPS-FY11-10, USPS-FY11-10 FCM_LTRS.xls and in cells E15-E18 of tab "MISC" of USPS-FY10-10, USPS-FY-10_FCM_PRST_LETTERS_MPFinal.xlsx.

a. Please confirm that the source of the Automation Incoming Secondaries percentages is F.A.S.T. data. If confirmed, please provide a description of the F.A.S.T. system. If not confirmed, please identify and provide a description of the source of these percentages.

b. Please describe the methodology used to develop
   i. the FY 2011 Automation Incoming Secondaries percentages in USPS-FY11-10; and
   ii. the FY 2010 Automation Incoming Secondaries percentages in USPS-FY10-10.
   Please note any differences between the FY 2010 and FY 2011 methodologies in this description, including differences in assumptions used to develop the percentages.

c. Please provide in a sourced electronic spreadsheet all data and underlying calculations used to estimate the FY 2010 and FY 2011 Automation Incoming Secondaries percentages.

d. Please confirm that the sum of the 3-Pass DPS (CSBCS) (cell E17) and 2-Pass DPS (DBCS) (cell E18) Automation Incoming Secondaries percentages (i.e., the combined DPS percentage) decreased from FY 2010 to FY 2011. If not confirmed, please provide all calculations and explain fully.

e. Please state whether the Postal Service believes that the actual percentage of First-Class Mail Presort Letters sorted on automation to DPS decreased from FY 2010 to FY 2011. Please explain fully your response.

f. Please provide your best estimate of
   i. the number of CSBCS that were in operation in FY 2011;
   ii. the number of 5-Digit ZIP Codes for which letters were sorted to DPS on a CSBCS in FY 2011; and
   iii. the percentage of First-Class Mail Presort Letters destinating in 5-Digit ZIP Codes that were sorted to DPS on a CSBCS in FY 2011. Please explain your response and provide all calculations in a sourced electronic spreadsheet format.

RESPONSE:

Over the past two years, the responsibility of aggregating F.A.S.T. data has been

repeatedly transferred among Postal Service analysts, as a result of significant

restructuring and retirements. In light of such transfers, the short period of time

between when FY 2011 end-of-year operational statistics became available and the statutory filing deadline of the FY 2011 ACR precluded a thorough examination of the data-aggregation calculations.

The Postal Service has now determined that the data-aggregation calculations have some errors. These errors affect the FY 2010 and FY 2011 measures of the proportions of DBCS sorted DPS mail, CSBCS sorted DPS mail, and mail not sequenced. The corrected measures, underlying source data, and revised Standard Mail letters and First Class Mail letters cost avoidance models are supplied in USPS-FY11-49. The corrected FY 2010 and FY 2011calculations use the same methodology as FY 2009 and prior years.

a.   Partially confirmed. The incoming secondary mail volume percentages in USPS-FY11-10 were derived from MODS data alone, which do not include function 4 offices where most of the CSBCS machines are located.

The percentages in USPS-FY10-10 were derived from F.A.S.T. data which include function 4 offices. However, those percentages were based on some calculation errors. In particular, CSBCS TPH was not divided by the total number of passes. Also, the Sector Segment volume should have been developed from the first-pass TPH not the second-pass TPH.

For the corrected calculations provided in this response, F.A.S.T data are used for both the FY 2010 and FY 2011 models. The underlying data source for F.A.S.T. is WebEOR. WebEOR is a web-based application used in collecting end-of-run (EOR) data from automated and mechanized mail processing equipment at function 1 and function 4 offices.

b. As described above, there were errors in the calculations of determining the incoming secondary mail volume percentages found in USPS-FY10-10 and USPS-FY11-10. The corrected percentages are derived using the corrected calculations in FY 2010 and FY 2011. Annual WebEOR TPH are rolled up by MODS operation, EOR machine type, operation sort code, EOR operation type, and machine pass number. There are six possible nodes for finalizing letters on automation equipment:

1. DPS on CSBCS – TPH from operation 905. Since data for all three passes combined are recorded under the third pass, operation 905 TPH must be divided by 3.

2. DPS on DBCS/MPBCS at function 4 offices – TPH from the first pass of operation 912.

3. DPS on DBCS at function 1 offices – TPH from the first pass of operation 918.

4. Sector Segment – TPH from first pass of all sector segment operations.

5. Carrier Route Sorted Volume That Is Not Resorted on CSBCS – This is all TPH from incoming secondary operations minus CSBCS TPH (node 1). Since mail finalized to DPS on CSBCS machines must first be sorted to carrier route, CSBCS TPH must be subtracted to avoid double counting.

6. Box Section – TPH from all operations sorted to box section.

Categories 1 through 4 are considered to be DPS nodes, while categories 5 and 6 are considered to be carrier route nodes.

c.   The corrected FY 2010 and FY 2011 data are provided in USPS-FY11-49 in

Excel workbooks FAST2010.xls and FAST2011.xls, respectively.

d-e.   Not confirmed using corrected data. With the corrected measure of the

letter DPS proportion, the proportion of mail sorted to DPS in FY2011 (94.25

percent- the sum of CSBCS and DBCS) exceeds the proportion sorted to DPS in

FY 2010 (93.69 percent).

Data from the City Carrier Cost System (CCCS) and the Rural Carrier

Cost System (RCCS) indicated that the DPS percentage for First-Class Mail

Presort Letters increased slightly from 90.7% in FY 2010 to 91.6% in FY 2011.

The combined carrier cost systems do not address the approximately 8 to 9% of

First-Class Mail Presort letters that are not delivered by carriers.

First Class Presort Letters	CCCS TOTAL	CCCS DPS	RCCS TOTAL	RCCS DPS	CCS TOTAL VOL	CCS DPS	CCS DPS %
FY11	25,507,487	23,721,596	12,456,290	11,069,152	37,963,777	34,790,747	91.6%
FY10	26,976,811	24,865,720	12,738,185	11,151,303	39,714,996	36,017,022	90.7%

Prior to Docket No. R2006-1, DPS percentages had been used to

estimate separate delivery unit cost estimates by price category. Given that the

cost models relied on aggregate acceptance rates (single-piece and presort

combined), less finely presorted mail pieces appeared to have lower DPS

percentages (and therefore higher delivery unit costs) in comparison to more

finely presorted mail pieces purely because the more finely presorted pieces

flowed through fewer pieces of equipment in the letter mail processing models

and thus were subjected to fewer opportunities for reject from the machines, even though no data is available to determine which types of pieces were rejected in each of those operations. Recognizing the possibly spurious correlation between presort level and cumulative reject rates leading to different DPS percentages, in Docket No. R2006-1, the Postal Service proposed revising that methodology because there was no conclusive evidence that the DPS percentages actually varied among the machinable price categories. In that docket, the Postal Service indicated that machinability was the one mail piece characteristic that had a quantifiable impact on the mail processing costs. The letter cost models therefore relied on machinable and non-machinable delivery unit cost estimates only for the impact of DPS on the letter delivery costs. (Please see Docket No. R2006-1, USPS-RT-7, Section II.B.). In its Opinion and Recommended Decision, the Commission disagreed (Please see Opinion and Recommended Decision, Docket No. R2006-1, at paragraph 5155).

Given the history of these calculations and the Postal Service's doubts regarding the robustness of the approach to begin with, although the carrier cost systems data indicated that the DPS percentage for Presort First-Class Mail letters had increased slightly from FY 2010 to FY 2011, the results from the letter cost model that indicated that the DPS percentage for those letters had dropped slightly did not immediately raise a red flag suggesting data anomalies.

f.   i.   There were 738 CSBCS machines in use in FY 2011.

      ii.   Letters were sorted for 1,345 5-Digit ZIP Codes on CSBCS machines in FY 2011.

iii.   WebEOR data can not distinguish class. Therefore, the best available

approximation is the percentage of letter mail finalized on CSBCS

machines found in FAST2011.xls (2.06%).